WEC Energy Group, Inc. (WEC)

Updated May 5th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$90	**5 Year CAGR Estimate:**	1.6%	**Market Cap:**	$31.5 billion
Fair Value Price:	$64	**5 Year Growth Estimate:**	5.2%	**Ex-Dividend Date:**	5/13/2020
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.5%	**Dividend Payment Date:**	6/1/2020
Dividend Yield:	2.8%	**5 Year Price Target**	$83	**Years Of Dividend Growth:**	17
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	7.2%

Formerly known as Wisconsin Energy, WEC Energy Group, Inc. provides electric, gas & steam service to customers in Wisconsin and gas service to customers in Illinois, Minnesota and Michigan. In total, WEC Energy Group provides services to 1.6 million customers. The company has also made nearly $600 million in investments into nonutility wind projects over the past two years. As a nonutility, WEC Energy Group's return on investment can exceed that of a regulated utility. The company has annual revenues of about $8 billion.

During the first quarter of 2019, WEC Energy Group received approval from the Wisconsin Public Service Commission for two solar farms that will be among the largest solar facilities in the Midwest, once completed. The company also received approval to purchase 300 megawatts of solar generation at two locations. This venture will be split with Madison Gas & Electric. WEC Energy will own 100 megawatts at each site. The expected investment will cost $260 million and should be ready for commercial service by the end of 2020.

WEC Energy Group released first quarter earnings results on 5/4/2020. Earnings-per-share increased 7.5% to $1.43, which was $0.11 higher than expected. Revenue decreased 11.3% to $2.1 billion, which was $323 million below estimates.

For the first quarter, retail deliveries of electricity decreased 3.4%. Cooler weather impacted electricity consumption. On a weather-normalized basis, deliveries were down 2% year-over-year. Residential electricity use was lower by 4.6%. Electricity consumption by small commercial and industrial customers declined 2.6%, while electricity used by large commercial and industrial customers fell 3.1%. These declines were due to weather and the economic downturn that occurred during the month of March related to the COVID-19 pandemic. WEC Energy Group finished the quarter with ~10,000 more electric customers and ~12,000 more natural gas customers compared to the previous year. The company reaffirmed its guidance for earnings-per-share in a range of $3.71 to $3.75 for the year, which would be a 4.2% increase from 2019 at the midpoint.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.92	$2.18	$2.35	$2.51	$2.59	$2.34	$2.96	$3.14	$3.34	$3.58	***$3.73***	***$4.81***
DPS	$0.80	$1.04	$1.20	$1.45	$1.56	$1.74	$1.98	$2.08	$2.21	$2.36	***$2.53***	***$3.26***
Shares[1]	234	230	229	226	226	316	316	316	316	317	***317***	***317***

WEC Energy Group has compounded earnings-per-share by a rate of 6.4% per year from 2010 to 2019. Profitability has increased even as the share count has increased by 35% over that time frame. Growth has increased to 8.9% over the last five years. We remain cautious and continue to expect that WEC Energy Group will be able to increase earnings-per-share by 5.2% annually through 2025 due to increases in revenue and returns from nonutility investments.

WEC Energy Group has raised its dividend for 17 consecutive years. The company increased its dividend by 7.2% for the 3/1/2020 payment. The dividend has compounded at a rate of 6.3% over the last five years.

[1] Share count in millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.0	14.2	15.8	16.5	17.7	21.3	19.9	20.0	19.6	25.8	***24.1***	***17.2***
Avg. Yld.	3.0%	3.3%	3.2%	3.5%	3.4%	3.5%	3.4%	3.3%	3.4%	2.6%	***2.8%***	***3.9%***

Shares of WEC Energy Group have declined $10, or 10%, since our 2/2/2020 update. Based off of the current share price and the company's expected earnings-per-share for 2020, WEC Energy Group trades with a price-to-earnings ratio of 24.1. This compares unfavorably to the stock's 10-year average valuation of 17.2x earnings. If the stock reverted to this valuation by 2025 then shareholders would see annual returns reduced by 6.5% over this time period.

WEC Energy Group has a dividend yield of 2.8% currently. This is below the 10-year average yield of 3.3% for the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	42%	48%	51%	58%	60%	74%	67%	66%	66%	66%	***68%***	***68%***

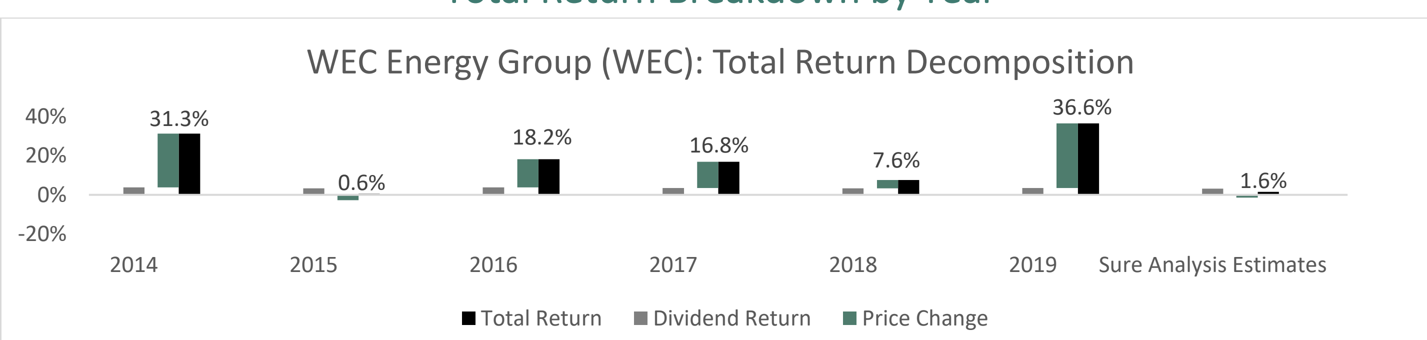
The expected dividend payout ratio for 2020 is 68%, which is relatively low for a utility company. WEC Energy Group has a targeted payout ratio of 65% to 70%.

Earnings-per-share increased during the last recession, growing nearly 13% from 2007 to 2009. As a utility company, WEC Energy Group is likely to remain profitable during this recession as customers usually prioritize their gas and electric bills. The company is able to recover spending to update infrastructure through the customers it serves. WEC Energy Group expansion into renewable energy, like wind farms, could help the company to grow at a higher than expected rate due to the potential of higher return on investments. Low unemployment and colder temperatures in its service areas should also help the company improve its financial metrics.

Final Thoughts & Recommendation

Following first quarter results, WEC Energy Group is expected to offer a total annual return of 1.6% through 2025, up from our previous estimate of a negative return of 0.5%. WEC Energy Group had a mixed quarter, with solid growth on the bottom line and a double-digit decrease on the top line. Weather continues to be an issue for the company, as results have been lower than usual for the past few quarters. Shares of WEC Energy Company trade at a significant premium to our fair value while offering a lower than usual yield for the utility sector. We suggest investors consider purchasing Dominion Energy (D), Duke Energy Corporation (DUK) or Southern Company (SO) instead as they each have a higher projected return and yield. We maintain our sell recommendation on WEC Energy Group as well as our $83 price target for 2025.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	4,203	4,486	4,246	4,519	4,997	5,926	7,472	7,649	7,680	7,523
Gross Profit	1,024	1,331	1,486	1,537	1,625	1,977	2,654	2,770	2,511	2,660
Gross Margin	24.4%	29.7%	35.0%	34.0%	32.5%	33.4%	35.5%	36.2%	32.7%	35.4%
SG&A Exp.										
D&A Exp.	317	336	372	396	417	584	763	799	846	926
Operating Profit	612	887	1,000	1,080	1,112	1,251	1,696	1,776	1,468	1,531
Operating Margin	14.6%	19.8%	23.6%	23.9%	22.3%	21.1%	22.7%	23.2%	19.1%	20.4%
Net Profit	457	526	546	579	590	640	940	1,205	1,061	1,135
Net Margin	10.9%	11.7%	12.9%	12.8%	11.8%	10.8%	12.6%	15.8%	13.8%	15.1%
Free Cash Flow	12	163	467	507	438	27	680	119	330	85
Income Tax	250	264	306	338	362	434	567	384	170	125

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,060	13,862	14,285	14,769	14,905	29,355	30,123	31,591	33,476	34,952
Cash & Equivalents	25	14	36	26	62	50	38	39	85	38
Accounts Receivable	345	349	285	406	643	1,029	1,242	1,351	1,281	1,177
Inventories	379	382	361	329	401	687	588	539	548	550
Goodwill & Int. Ass.	442	442	442	442	442	3,024	3,046	3,054	3,053	3,053
Total Liabilities	9,227	9,868	10,120	10,506	10,455	20,670	21,163	22,099	23,633	24,697
Accounts Payable	315	326	368	343	363	815	862	860	876	908
Long-Term Debt	5,063	5,317	5,261	5,243	5,212	10,377	10,176	11,033	11,799	12,735
Shareholder's Equity	3,833	3,994	4,166	4,263	4,450	8,685	8,960	9,492	9,819	10,144
D/E Ratio	1.32	1.33	1.26	1.23	1.17	1.19	1.14	1.16	1.20	1.26

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.5%	3.9%	3.9%	4.0%	4.0%	2.9%	3.2%	3.9%	3.3%	3.3%
Return on Equity	12.3%	13.4%	13.4%	13.7%	13.5%	9.7%	10.7%	13.1%	11.0%	11.4%
ROIC	5.2%	5.8%	5.8%	6.1%	6.2%	4.5%	4.9%	6.1%	5.0%	5.1%
Shares Out.	234	230	229	226	226	316	316	316	316	317
Revenue/Share	17.75	19.06	18.24	19.67	21.97	21.73	23.58	24.11	24.23	23.75
FCF/Share	0.05	0.69	2.01	2.21	1.92	0.10	2.15	0.38	1.04	0.27

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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